

A ROADMAP TO Recovery

Reforming San Diego City Government

Commitment 6: Fair and Open Competitive Bidding

To achieve efficiencies in city operations and implement the will of the voters, open and fair competitive bidding on city services should be conducted on a regular basis.

San Diego voters overwhelmingly approved Prop C in 2006 to require the city to use competitive bidding to achieve taxpayer savings. Unfortunately, now more than four years later, not one single service has been subjected to competitive bidding under Prop C – with millions in cost savings forgone as a result.

At its most basic level, competitive bidding of services is a powerful tool for improving quality and saving money when properly implemented. Competition in services involves the examination of an activity of an agency to determine whether the activity should continue to be carried out within the agency or should be purchased from an outside entity. Put simply, should the agency “make” or “buy” this activity.

Yet in a larger sense, competition goes beyond the decision to “make” or “buy” to examine such considerations such as:

Whether an activity is needed in the first place

Whether an activity should be “re-engineered” to be more efficient

Whether an activity should be “sourced” differently, either through another staff unit, another agency, a non-profit organization, a program partner, or a private-sector vendor.

The issue of improving “performance” should dominate the three considerations above—with the concept of “competition” driving the process to ensure the best sourcing solution is adopted by the agency. However, true “competition” can only be achieved when multiple players are competing under a fair and transparent process where performance results expected from the activity in question are clear.

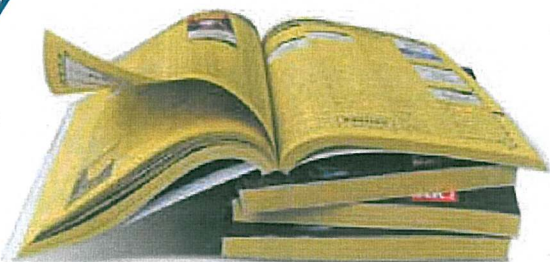
The Roadmap to Recovery not only seeks to jumpstart competitive bidding of city services, but challenges the city to improve contract management and oversight.

The Roadmap also embraces the notion of “Strategic Sourcing” whereby the purchases by city departments are viewed collectively – with opportunities for savings achieved at a city-wide level. Finally the Roadmap examines ways the city can contract or lease out its existing assets to private operators to produce savings and/or new income streams to provide General Fund services.

FY 2012 Changes

Reform 6.1 Using “Strategic Sourcing” to Reduce Contracts for Consulting Services and Supplies

The City of San Diego has a myriad of contracts with outside firms for



Using The Yellow Pages Test

Stephen Goldsmith, former mayor of Indianapolis and current deputy mayor of New York City, is one of the most accomplished practitioners of competition and privatization. He has long recommended a simple guide to competition—the yellow pages test.

“If the phone book lists three companies that provide a certain service, the [government] should not be in that business, at least not exclusively. The best candidates for marketization are those for which a bustling competitive market already exists. Using the yellow pages test, [you] can take advantage of markets that have been operating for years.”

– Stephen Goldsmith

consulting services, support services, and the provision of commodities and goods. After excluding contracts for public works projects, the City spends more than \$132 million annually on contracts for supplies and services.

"Strategic Sourcing" refers to efforts on the part of organizations to examine the entirety of their contracts and procurements of services, goods and commodities to carefully evaluate ways to reduce expenses through reduced purchases, securing of bulk rates and discounts, and enhance the depth and management of relationships with suppliers.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
City-Wide	5% reduction in supplies and services budgets (excluding Police/Fire)	NA	\$4,200,000

The Roadmap to Recovery believes an immediate easy target of a 5% reduction in Contracts and Supplies can and should be implemented for the General Fund. Our plan excludes Police and Fire from these cuts, bringing the General Fund total 5% reduction from \$5.3 million down to a proposed reduction of \$4.2 million¹.

Reform 6.2 Complete Competitive Bidding (Using Managed Competition or Direct Outsourcing) on 11 Functions in FY 2012

With the passage of the Managed Competition Guide, the City took a step toward implementing Proposition C from November of 2006, which called for the competitive bidding for providing City services between the private sector and City employees.

Unfortunately, our office does not believe that the adopted version of the Managed Competition Guide represents fair and open competition as called for by voters.

This opposition is attributable to the exclusion of retirement costs on top of a 10% bid advantage for City employees built-in to cost comparisons and the opportunity for delays due to excessive "meet and confer" requirements. The Guide also excludes the cost of under-funded retiree health care benefits and pension liabilities – and excludes the potential savings from outsourcing on these two costly budget line-items.

Given the risk of reduced private sector bid interest created by the adopted version of the Managed Competition Guide, the ability of the City to pursue competitive bidding outside of the current Guide is important. As the City Attorney has opined²:

"The City may outsource work performed by City employees in compliance with the City Charter and state collective bargaining laws... Charter section 117(c) provides broad authority to contract out the work of classified, civil service employees when the Mayor determined, subject to City Council approval, City services can be provided more economically and efficiently by independent contractors."

The Managed Competition Guide also states that the City³:

"...reserves its rights regarding any alternate process permitted under Charter section 117(c) to determine when city services can be provided more economically and efficiently by an independent contractor than by persons employed in the Classified Service while maintaining service quality and protecting the public interest."

If the Managed Competition Guide fails to produce adequate savings from fair and open competition, the City may have to utilize a Direct Outsourcing Process outside of the Guide, as described above.

Provided that competitions are conducted on a fair and level playing field, when the City put the Help Desk function from the Data Processing Corporation out for competitive bidding it achieved a commendable 47% cost savings on the function.

Our savings estimates assume an average of 15% cost savings from current budgeted levels – discounted from national cost savings models due to the use of pre-existing contract services and payments in some of the functions examined.

¹ "Fiscal Year 2011 Contracts and Supplies 5% Reduction Analysis," Mary Lewis, CFO, August 6, 2010.

² City Attorney Opinion Number 2009-2, "Outsourcing City Services," October 8, 2009.

³ City of San Diego "Managed Competition Guide," July 26, 2010.

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Our cost savings methodology is derived from data in the City's adopted budget, reports published by the Office of the Independent Budget Analyst and savings estimates provided by the Mayor's office in relation to estimates for the Proposition D (2010) fiscal impact analysis. The savings are also within the savings ranges estimated for the City of San Diego by independent research⁴.

Furthermore, we have discounted our cost saving estimates for FY 12 to assume an implementation timeline of approximately 12-14 months -- meaning that savings begin to accrue half-way through FY 12.

Finally, the benefits to the City of implementing competitive bidding for services is not limited to direct cost savings (including reduction-in-force pension impacts). It also has the potential to serve as a key component of further pension reform efforts by providing active employees with the incentive to lower their cost structure in order to remain competitive.

In fact, our budgetary savings estimates outlined below do not take into account any savings to the City's pension payment resulting from a potential reduction in force due to competitive bidding. (To this point, our actuarial analysis projects savings of \$1.2 million for the first year of a general membership 10% reduction-in-force, phased-in over 3 years. Further detail is provided in the Pension Commitment of this Roadmap.)

Time is of the essence in making competitive bidding work for taxpayers in the FY 2012 budget. As such, by no later than December 15, the City Council should authorize the Mayor to proceed forward with competitive bidding on all of the functions outlined in this Roadmap -- and delegate the development of Statements of Work to the Mayor.

To comply with the current Managed Competition Guide, the City Council should receive an informational report on the SOW's and provide feedback if necessary for the Mayor to incorporate as he sees fit. Between May 1 and September 1, 2011 the results of the competitions should be presented to the City Council for approval.

Transition of the functions that are outsourced should occur no later than January 1, 2012.

PRIORITY FUNCTIONS FOR MANAGED COMPETITION

Departmental Budget	Line Item	FTE Impact	General Fund Savings (Annual)	General Fund Savings (FY12)
Environmental Services Department	Trash Collection Services	0 to 110.80	\$4,397,265	\$2,198,633
Park and Recreation	Maintenance	0 to 56	\$488,301	\$244,150
Park and Recreation	Facilities Operations	0 to 123.14	\$1,405,231	\$702,615
Park and Recreation	Beaches and Shoreline Maintenance	0 to 17	\$809,065	\$404,532
Park and Recreation	City-Wide Park Maintenance	0 to 95	\$1,566,468	\$783,234
Park and Recreation	Parks and Buildings Maintenance	0 to 97.82	\$1,442,099	\$721,049
General Services	Facilities	0 to 98	\$1,840,541	\$920,271
General Services	Fleet and Auto Maintenance (includes analysis of vehicle utilization)	0 to 249	\$5,432,400	\$2,716,200
General Services	Print Shop and Publishing	0 to 25	\$101,366	\$50,683
Storm Water	Street sweeping function	0 to 42	\$733,960	\$366,980
Information Technology	Data Processing Corporation and City IT (includes strategic sourcing study)	0 to 80	\$5,000,000	\$2,500,000

TOTAL POSITIONS: 0 to 1,000
ESTIMATED FY 2012 SAVINGS: \$11,626,984

⁴ Bruvold, Erik, Gilroy, Leonard, Segal, Geoffrey and Summers, Adam. "Streamlining San Diego: Achieving Taxpayer Savings and Government Reforms through Managed Competition." September 1, 2007.

In addition to the functions above, the City may also want to consider initiating competitions on the following functions in FY 12 should time permit:

- Swimming pool maintenance
- Book binding and technical services (library)
- Traffic operations support
- Parking meter maintenance

Reform 6.3 Examine Selling Off Data Processing Corp

To enhance the value of competitive sourcing for city information technology, the city may want to consider selling the Data Processing Corporation. Under this process the city would award DPC a contract for its information technology services – provided that the cost is reduced by at least 15% to hit the assumed savings levels in the Roadmap to Reform. DPC would then have a long-term revenue stream (in addition to capital equipment and a valuable work-force) that could be potentially sold to a private firm.

This two-step process not only achieves savings on an annualized basis for taxpayers by virtue of lower information technology expenses, but would provide the City with a one-time, up front cash payment for the value of the DPC asset. This vehicle should be examined for feasibility before final decisions are made regarding the award of additional information technology contracts.

Reform 6.4 Divestiture of the Landfill

The City's landfill is a valuable asset – and cost savings can be achieved by transferring that asset to private operators. However, the deal must be structured in a way that benefits taxpayers today and protects taxpayers tomorrow.

To work the deal must provide the following elements:

- A fair lease payment to the city for the use of the landfill,
- An exceptional bargain for the dumping of General Fund solid waste,
- Adequate financing for proper environmental compliance costs

The City has contracted with an outside consulting firm to help manage the bid process, evaluate proposals, and structure the deal terms. For FY 12, the Roadmap includes the lowest-end of anticipated financial benefits to taxpayers from this deal.

Departmental Budget	Line Item	FTE Impact	General Fund Savings
Environmental Services	Divestiture of Landfill	NA	\$10,000,000

Long-Term Changes

Reform 6.5 Expanding Use of “Strategic Sourcing”

Outside of the immediate cost savings to the FY 12 budget, the Roadmap to Reform urges the Mayor and City Council to direct staff in FY 2012 to initiate the long-term use of “Strategic Sourcing” analysis to reduce contract expenditures and improve contract performance. A number of outside vendors provide strategic sourcing analytic services – and the city should consider engaging one using a no-risk “share-in-savings” contract to achieve additional cost savings.

Finally, in FY 2012 the City should approach other regional governments – including the county government, school districts, water districts, etc. – and explore the idea of creating a county-wide procurement vehicle for common services. Similar to the GSA and DOD supply schedules used by the Federal Government, San Diego taxpayers may see improved buying power and better rates if this vehicle is created.

Reform 6.6 Expanding Use of “Fixed-Price” and “Performance-based” Contracts

Another powerful reform that can save government money and improve program results is to implement “performance-based contracting (PBC)” for as many contracts as possible. Performance-based contracting is the soliciting of bids based on what results government wants accomplished, rather than what activities it wants

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conducted. It relies on performance standards being included in the contract as well as payments tied to achievement of results.

This is a significant change. By compensating a contractor for results rather than effort or activity, the transaction becomes more efficient for both the vendor and government. The vendor has the freedom and flexibility to do what they do best (produce the service) without micromanagement on activities from government. If it takes 10 hours or 10 months to deliver the service to government consistent with the quality standards of the contract, the payment is the same. And if the contractor does not perform the service according to the quality standards, it must re-do its work until the job is done. Period.

The contract is structured under a "fixed price" for each service purchase and no payment until performance is delivered. As a consequence of this payment method, transaction costs are reduced for both government and the vendor as paperwork and auditing requirements are streamlined. And of course, the focus on performance is likely to improve chances that government gets quality service.

This scenario stands in stark contrast to the preferred contracts used by government today: "cost-reimburse," "time and materials," and "fee-for-service" contracts. Under these contracting vehicles, government pays every time a contractor "works" on a project—encouraging a contractor to drag on the contract for as long as possible and take every opportunity to engage in an authorized activity under the contract.

As each and every city contract comes up for renewal, city departments should explore any and all ways to make new contracts "performance-based."

The city might want to consider a variety of other innovative contracting vehicles. Not all of these vehicles are appropriate for every service provided by government, but should at least be given consideration to see if a good fit can be made:

Share-in-Savings Contracts: As referenced in the reorganization chapter, share-in-savings contracts limit the liability of government by paying contractors through the cost savings realized from a particular service. For example, the city might want to convert many information technology into share-in-savings contracts whereby the vendor provides the information technology services for free, but collects a percentage of the cost savings to the government from use of the technology.

Fee-Based Service Delivery: Under this model, firms would be allowed to design a better process for delivering a city service (such as a license). The firm would then "sell" the service to the market at a fee. If the service provided was not faster and better, the market would not pay. However, if the firm could provide better services, then it would generate revenue. The city would still offer the service, but at a reduced staffing need.

Reverse Auctioning Online: The city can tap the power of the internet to procure many goods and services using online auctions similar to those seen on eBay. Here's how it works: suppose the city wanted to print new letterhead for a department. A city department could advertise for a bid for new letterhead over the Internet with a set time period for submission of bids. The "current" bid price would fall as each vendor submitted a new, lower bid to win the contract.

